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GENERAL SHOE CORPORATION

A Southern Success Story

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GENERAL SHOE CORPORATION

A Southern Success Story

IT hasn't been so many years since that lyrical line, "I got shoes, you got shoes, all God's chillun got shoes", expressed a wish that appeared far from fulfilment. But today those words may be taken literally, or practically so, as far as Americans are concerned. For in 1946 the U. S. shoe industry produced the remarkable total of 530 million pairs of shoes!

W. Maxey Jarman,
Chairman, General Shoe Corporation

Looming large in this phenomenal production record is a comparative newcomer, the General Shoe Corporation. In the short span of 23 years General Shoe has grown from infancy to the number 4 position in the industry. One of the fastest growing companies in the shoe industry, General has expanded its operations from a single plant in 1924 to 25 plants today, and has increased its net sales from approximately $1,000,000 in its first year to $61,133,798 in fiscal 1946. The Company's growth, remarkable by any standard, is amazing indeed in view of the fact that there are more than 1,000 shoe companies in the United States, most of them older than General Shoe Corporation.

Any company with so impressive a growth must merit the attention of investors, particularly if it has earned a profit in every year of its history and has registered an increase in sales in every year save two. Such is the record of General Shoe.

General's predecessor, the Jarman Shoe Company, was organized as a partnership in 1924, was incorporated for $130,000 the following year, adopted its present name in 1933, and in fiscal 1946 produced 15,984,926 pairs of shoes. That's the story, but it needs a lot of "filling in" even for the purposes of a brief sketch.

SECRET OF SUCCESS

To the proverbial question, "What is the secret of its success?", the best one-word answer in the case of General Shoe is "management". And that doesn't mean simply good management, but aggressive, resourceful, courageous and experienced management. J. F. Jarman, one of the Company's three founders, formulated many of the basic policies that guide the Company to this day, although Mr. Jarman died in 1938. His son, W. Maxey Jarman, who has been with the Company since its organization, was elected president in 1932, and became Chairman of the Corporation in March 1947. In the same month Henry W. Boyd,

Jr., who has been with General since 1931, was elected president. It is noteworthy that two of the Company's "founding fathers", William H. Wemyss, executive vice-president, and J. H. Lawson, general manager, are still actively engaged in its management. It is significant that all 16 directors are active officers of the Company, and that the top jobs at General Shoe are filled, with few exceptions, by men who gained all their shoe experience with General.

Henry W. Boyd, Jr.,
President, General Shoe Corporation

One of the Company's original policies, which is still basic, is that of giving the consumer somewhat more for his money than he has been accustomed to receive. By way of implementing this policy at the very outset, the Company produced as its first product a calfskin shoe to retail at $5.00. This shoe represented a daring step in that most $5.00 shoes of that day were made of side leather, which would not hold a "shine", and most manufacturers believed that dealers would refuse to sell the new shoe for less than $6.00 or $7.00. Moreover, in order to realize an adequate profit on the $5.00 calfskin shoe, it was necessary to allow dealers only a 30% mark-up instead of the customary 40%. It was freely predicted that the trade would not accept this smaller profit margin. Despite predictions of failure, the new shoe, known as the "Jarman Friendly Five", was a tremendous success and more than justified the Company's daring venture. Implicit in the venture of the $5.00 shoe is another policy that is still basic with General: a low profit margin coupled with a fast capital turnover.

Perhaps the most dramatic merchandising move ever made by the Company was the production of an English riding boot to retail at only $5.00. In an effort to stimulate trade in the dull days of 1932, Jarman startled the industry by introducing this new product. The instant success of the $5.00 boot is easily understood in view of the fact that most comparable boots were selling for four times this amount, or more. This boot not only embodied an ingenious merchandising technique, but also represented something of a triumph from a manufacturing standpoint.

The incidents of the "Jarman Friendly Five" and the $5.00 riding boot are illustrative of the ingenuity and resourcefulness that have characterized General Shoe's management throughout the Company's history. They afford something of a key to the secret of General's rapid growth and consistent success.

Several references have been made to the management's boldness, and lest the impression of recklessness be conveyed, an example of General Shoe's careful attention to detail should be given. One of the Company's guiding policies is that of maintaining a close control over all operations on the basis of up-to-the-minute information on all phases of the business. One of the methods of implementing this policy is that of taking an actual physical inventory once every month!

GROWTH A NECESSITY

From the outset General Shoe's management has held to the conviction that constant growth is a necessity to a sound business. This conviction is revealing, and the management's fidelity to it has brought amazing results, as already seen. The limitations of space prohibit a step-by-step report of the Company's progress, but it is significant that a large part of its growth occurred during the dark depression years of the 1930s.

The present day outgrowth of the small Nashville plant that began operating in 1924 is a large and widespread organization including 25 plants situated in five states and two foreign countries. With the exception of a tannery in Whitehall, Michigan, all the Company's U. S. properties are located in four Southern States. And with the exception of plants in Nashville and Atlanta, all these Southern properties are situated in small communities. Two of the foreign plants are located in Mexico City, and one is in Lima, Peru. General Shoe owns the controlling interest in these manufactories in association with Mexican and Peruvian minority interests.

The Company's domestic plants include 9 for the manufacture of men's shoes, 7 making women's shoes, 2 producing juvenile shoes, a tannery and a sole cutting plant. Also, the Company has a plant producing hand bags, wallets and similar items; another manufacturing polishes and finishes; one for the production of window display fixtures and materials; and one manufacturing paper boxes and steel shanks. The two Mexico City plants produce shoes for both men and women, and the Lima plant manufactures shoes for men, women and children.

Like other members of the industry, General Shoe rents the bulk of its machinery on a payment-in-proportion-to-production basis. This practice makes for highly flexible production costs and minimizes the unfavorable effects of a highly seasonal demand, which reaches its peaks in Spring and Fall. Moreover, General Shoe also rents most of its factories, thus making possible a modest capitalization in relation to productive capacity.

As suggested in the comments about the Company's various plants, General Shoe is carrying out a program of increasing integration, and appears well on the way toward "cow-to-customer" control. In line with this policy was the completion recently of a new sole-cutting plant in Nashville, one of the largest and most modern of its kind in the United States. This step has enabled General to produce about 80% of its total sole requirements, a significant advance in its integration program. Furthermore, General Shoe's output is well diversified. According to the annual report covering fiscal 1946, approximately 58% of the Company's shoe production for the year was men's shoes, 28% women's shoes and 14% child-

General Shoe's Home Office Building, Nashville, Tennessee

General's Headquarters Plant where Jarman shoes are made

General's New Sole Cutting Plant. One of the most efficient in the nation.

ren's. The Company's shoes cover the style range from work shoes to dress shoes, and for the most part fall in the middle, or volume, price brackets.

General Shoe's distribution outlets are well diversified also. About 54% of General's domestic sales, is made to some 12,000 independent merchants situated throughout the nation and about 19% is represented by private brands, manufactured for various chain stores and mail-order concerns. The remainder is sold through more than 100 Company-operated retail stores situated in all major geographical sections of the country, and employing the familiar names of Jarman, Flagg Brothers, Hardy and Holidays. Several General Shoe lines are strongly supported by excellent nation wide advertising. Every reader of national magazines should have an acquaintance with the names Jarman and Fortune (men's) Acrobat and Storybook (children's), Fortunet Casuals (women's), Friendly (teen-age girls), Twenty-Ones (young women) and Skyrider (boys).

THE FUTURE

Shoes are a necessity, falling well within the "food, clothing and shelter" definition of the most orthodox economists. Consequently, the demand for shoes is relatively stable. An increasing emphasis on style since the early 1930s has done much to increase per capita consumption, but it appears reasonable to believe that the demand for shoes will continue to fluctuate to a lesser degree than national income.

Some authorities believe that the industry's record production of 530,000,000 pairs in 1946, which reflected the pent up demand brought about by war-time rationing, will stand unbroken for many years. Others feel that a modest expansion may be expected if the national income holds near present levels, but there seems to be pretty general agreement on the opinion that a marked growth of the industry is unlikely in the near future. The significance of the 1946 production of 530,000,000 pairs is more apparent when compared with the 1929 figure

GENERAL SHOE

Balance Sheet Items

October 31	1942	1943	1944	1945	1946
Total Assets	$11,638,327	$12,160,915	$12,442,426	$16,048,106	$20,227,103
Current Assets	10,281,900	10,654,807	10,570,155	14,363,699	17,723,628
Current Liabilities	876,851	973,238	1,073,386	1,485,880	1,309,947
Current Ratio	11.73 to 1	10.95 to 1	9.85 to 1	9.67 to 1	13.53 to 1
Net Working Capital	$ 9,405,049	$ 9,681,569	$ 9,496,769	$12,877,819	$16,413,681
Debentures Outstanding	2,500,000	2,350,000	2,200,000	5,000,000	
$3.50 Pfd. Outstanding					5,000,000
$0.40 Pfd. Outstanding	496,300	496,300	496,300	496,300	496,300
Common Stock Outstanding	627,173	627,391	627,391	627,391	704,321
Surplus	6,931,187	7,495,167	7,815,631	8,259,285	12,492,146
Net Worth	8,054,660	8,618,858	8,939,322	9,382,976	18,692,767
Book Value Per Common Share	12.05	12.95	13.46	14.16	18.74

GENERAL SHOE

Income Items

Year Ended October 31	1942	1943	1944	1945	1946
Total Volume of Business	$39,949,226	$48,990,794	$53,474,786	$61,122,583	$75,367,861
Net Sales Less Inter-Branch Business	33,738,750	40,886,382	44,716,808	51,177,678	61,133,798
Total Income Taxes	2,148,400	2,936,700	3,002,650	3,174,200	2,207,123
Net Earnings	1,023,373	1,229,136	1,007,411	1,110,749	2,755,372
Number Shares $3.50 Pfd. Outstanding					50,000
Earnings Per Share on $3.50 Pfd.					$55.11
Number Shares $0.40 Pfd. Outstanding	99,260	99,260	99,260	99,260	99,260
Earnings Per Share on $0.40 Pfd.	$10.31	$12.38	$10.15	$11.19	$27.09
Number Common Shares Outstanding	627,173	627,391	627,391	627,391	704,321
Earnings Per Common Share	$1.57	$1.90	$1.54	$1.71	$3.76
Dividends Per Common Share	1.00	1.00	1.00	1.00	1.60
Price Range On Common Stock (Calendar Year)	10–8¼	15⅛–9⅞	19¾–14⅜	31–19	47–29

of 361,400,000, and the 1939 output of 424,200,000 pairs.

The present position of the shoe industry seems to be such that a sizable sales increase by a major producer must be achieved at the expense of competitors, rather than as a part of an industry-wide growth. General Shoe Corporation appears to be well equipped to meet such a situation. The Company's management has proved itself capable of conceiving daring and ingenious merchandising methods, and of making them work. In this connection, it should be repeated that General Shoe has registered a sales increase in every year since 1924, except in 1932 and 1938.

Just as the automobile industry has its "big three", so does the shoe industry have its "big five", consisting of International Shoe Co., Brown Shoe Company, Endicott Johnson Corporation, General Shoe Corporation and Melville Shoe Corporation. It is significant that in 1936 General Shoe sold 4 out of every 100 pairs of shoes sold by the "big five", but by 1946 General had increased its share to 14 pairs out of each 100.

Today the shoe industry shares with most other industries the problem of rising costs. Without attempting to minimize this problem, it may be said that General Shoe has taken intelligent steps to cope with it, and has an established reputation as a low-cost producer. Most of its plants are in small communities where costs are lower than in many of the large industrial cities. The Company is becoming more and more integrated, producing for itself many products which most shoe manufacturers purchase from suppliers.

As previously noted, constant growth is one of General Shoe's guiding policies. The Company is now engaged in a 5-year expansion program, embracing both production

and distribution facilities. In view of the Company's growth record, especially during the depression, it seems reasonable to believe that General Shoe Corporation can cope successfully with present day conditions.

FINANCES STRONG

The Company's capital structure is a relatively simple one, consisting of:

$3.50 Cumulative Preference Stock: 50,000 shares authorized and outstanding, no par value, liquidating value $100 per share, callable at $107 to June 15, 1949, with successive reductions to $104 after June 15, 1954.....	$ 5,000,000
$0.40 Cumulative Preferred Stock: 99,260 shares authorized and outstanding, no par value, stated and liquidating value $5 per share, redeemable at $7.50	496,300
Common Stock: 1,200,000 shares authorized, no par, 704,321 shares outstanding (exclusive of 2,820 shares in treasury).....	704,321
Paid-in Surplus (10/31/46)..	$ 6,318,327
Earned Surplus (10/31/46)...	6,173,819
Total.....	$18,692,767

The Company's latest financing was done in June of 1946, and resulted in the elimination of its long term debt and the strengthening of its working capital position. This financing consisted of the issuance of 50,000 shares of $3.50 cumulative preference stock, the proceeds of which were used to redeem $5,000,000 3% Fifteen Year Sinking Fund Debentures due December 1, 1959, and the issuance of 64,030 additional shares of common stock, which provided $2,452,169 of new capital. Dividend requirements for the $3.50 cumulative preference stock were covered 14.7 times in the first nine months of 1947 and this stock is currently quoted in the low 90's to yield approximately 3.80%. The $0.40 cumulative preferred is very closely held and is rarely traded. The common stock is listed on the New York Stock Exchange. Dividends of $2.50 per share have been declared on the common in 1947, and it yields 7.94% on its current market price of approximately 31½. The Company closed its 1946 fiscal year in an exceedingly strong financial position. Year-end net working capital amounted to $16,413,681, and the current ratio was 13.53 to 1. For the nine months ended July 31, 1947 net sales were $54,955,197 and net profit amounted to $1,932,021 which is equivalent to $2.52 per common share. General's fiscal year ends October 31, and the Company expects profits for this year to be almost equal to the 1946 figure.

The General Shoe formula for growth and success has enabled the Company to establish a record of steadily increasing sales, production and earnings which is the envy of the industry. Guided by able, proven management and resting on a strong financial foundation, General Shoe confidently looks to a future in which it seems destined to continue as a leader in the industry.